

Trade, Jobs and Value-Added: A new look at EU global trade performance



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Trade in value added: why all this fuss?



- Essentially an accounting/statistical issue
 - “Double counting” - traditional trade statistics record the *gross* value of goods and services exchanged, rather than the *value added* by each country along the supply chain
- So what? Unless you’re a statistician, should we really care? Well....
 - competitiveness loss, manufacturing “hollowing out”, “Made in”, national champions?
 - Protectionist feelings, offshoring, bilateral “trade balancers”, exchange rates, job losses?
 - Bilateralism vs multilateralism: is there anything new?
 - Trade diversion vs trade creation: is Viner still right?



Our DG TRADE - CPB forthcoming study: short summary



- CPB team: Paul Veenendaal, Arjan Lejour Hugo Rojas-Romagosa
- Lots of good questions but several data constraints – early last year the best we’ve got was GTAP data – base year 2004. On 16 Apr we’ll have WIOD, the real value added trade data.
- But data issues aside, logic is the same: I/O national statistics and trade statistics, get rid of double counting, and split up the value added along the production chains
- Our main objective: get a more detailed perspective of how (well) the EU is integrated in the world economy

Splitting the value chain: some key concepts

A country's exports in terms of domestic value added is classified as:

1. **Final absorption**

- domestic value added that is directly or indirectly consumed in the first destination country – bilateral value chains

2. **Transmission**

- domestic value added that is further processed in first country and then re-exported to other countries

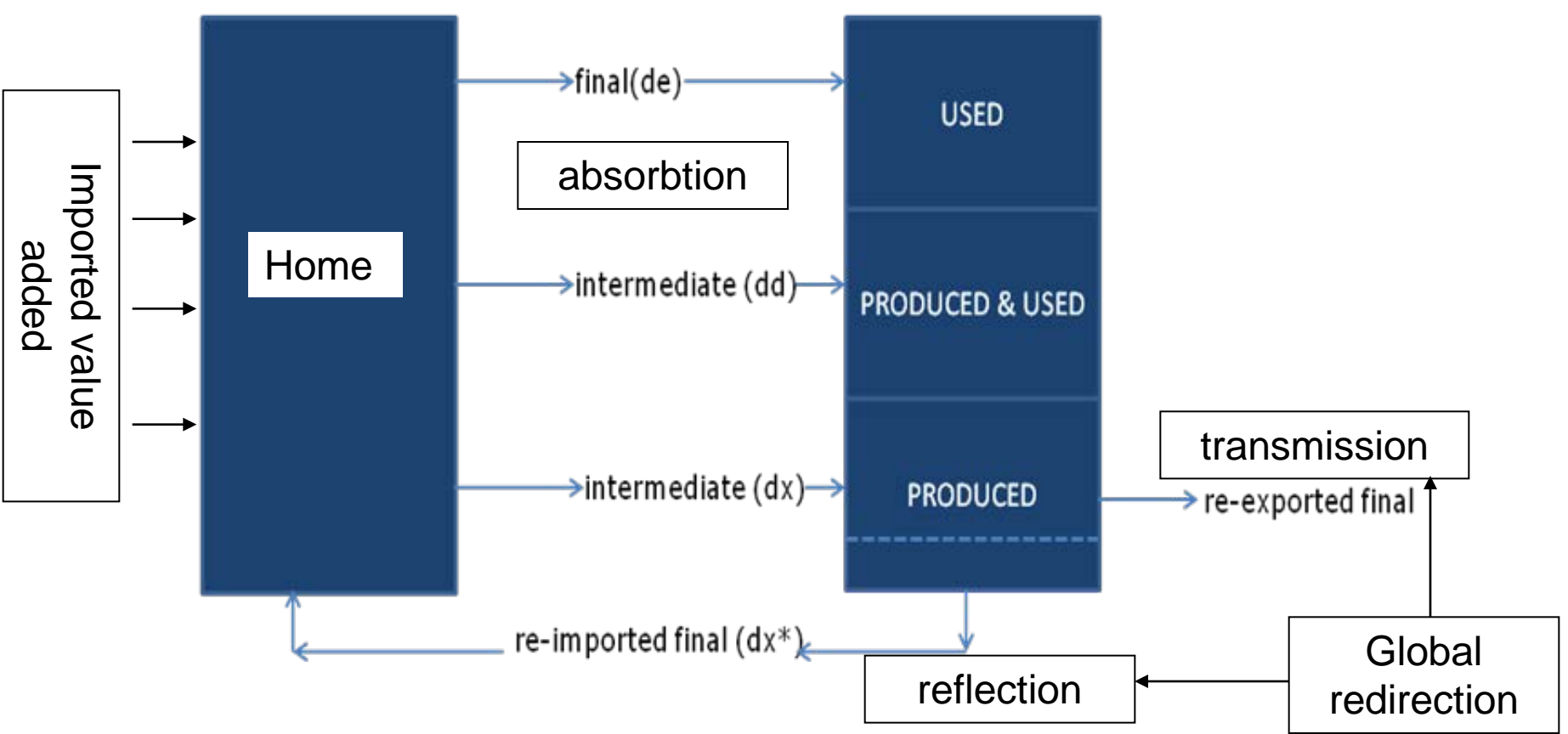
3. **Reflection**

- domestic value added that is processed abroad and re-exported back to the home country

4. **Global redirection**

- diversion plus reflection – overall measure of integration in global/regional value chains

Value chains: graphical illustration



Some important results...

- Around 80% of EU “traditional” gross exports is EU domestic value added
 - Lots of “Single Market” effects. So truly “made in Europe”, even if finally shipped from Germany or Rotterdam. We need the Single Market!
- The bulk of our exported VA stays in the first country destination. Big = strategic. Few FTAs really important.
- But for 1/6 of our exported value-added we need WTO and other countries’ open trade policies among themselves:
 - Around 14% of EU exported value added eventually end up in a different country than the original export destination
 - 16% of foreign value added comes indirectly via third countries before it is imported by the EU itself. Sometimes import tariffs = export duties.

The “real” EU bilateral trade balances



trade gaps

100
80
60
40
20
0
-20
-40
-60
-80
-100

Switzerland

Brazil

Russian Federation

India

China and Hong Kong

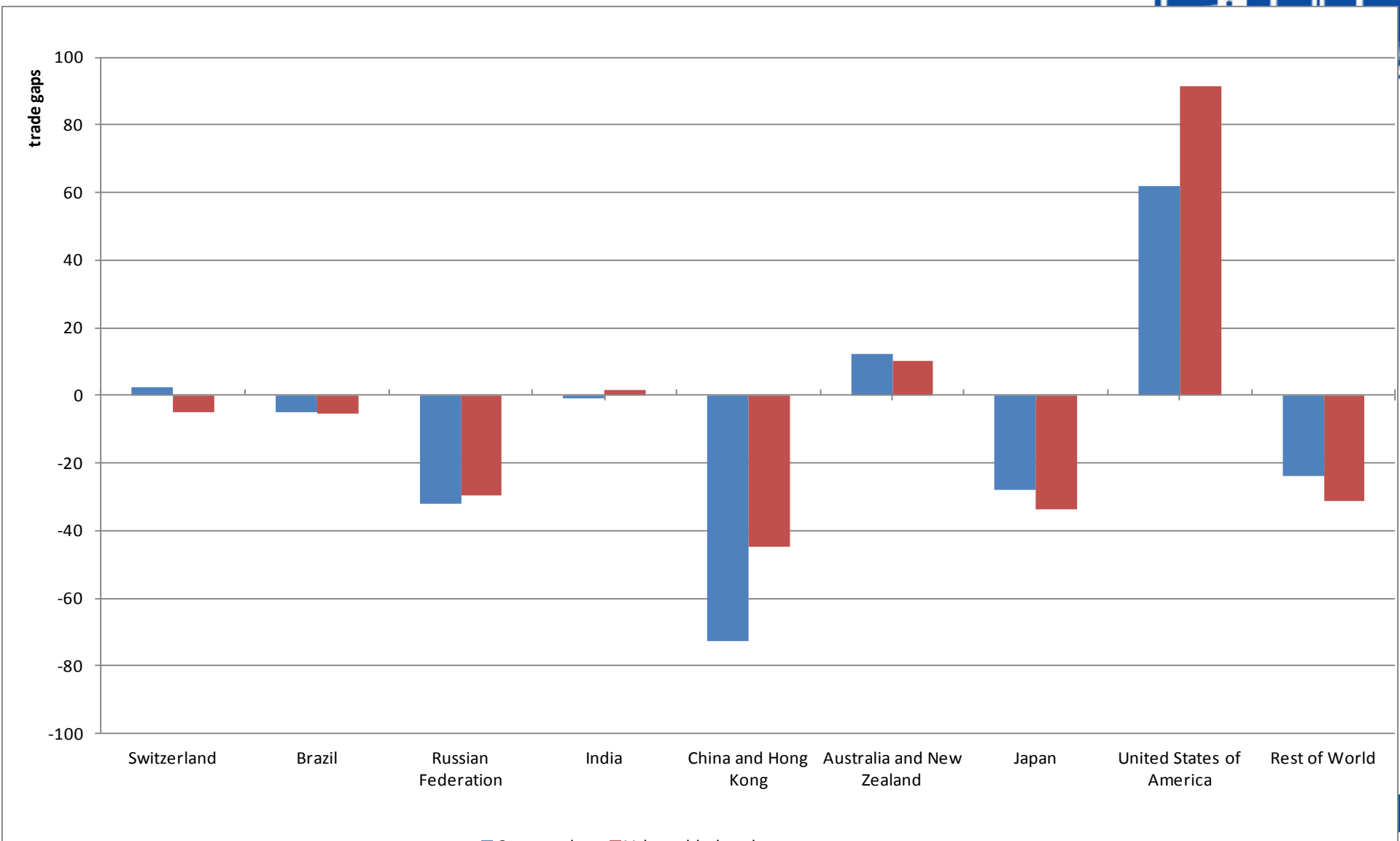
Australia and New Zealand

Japan

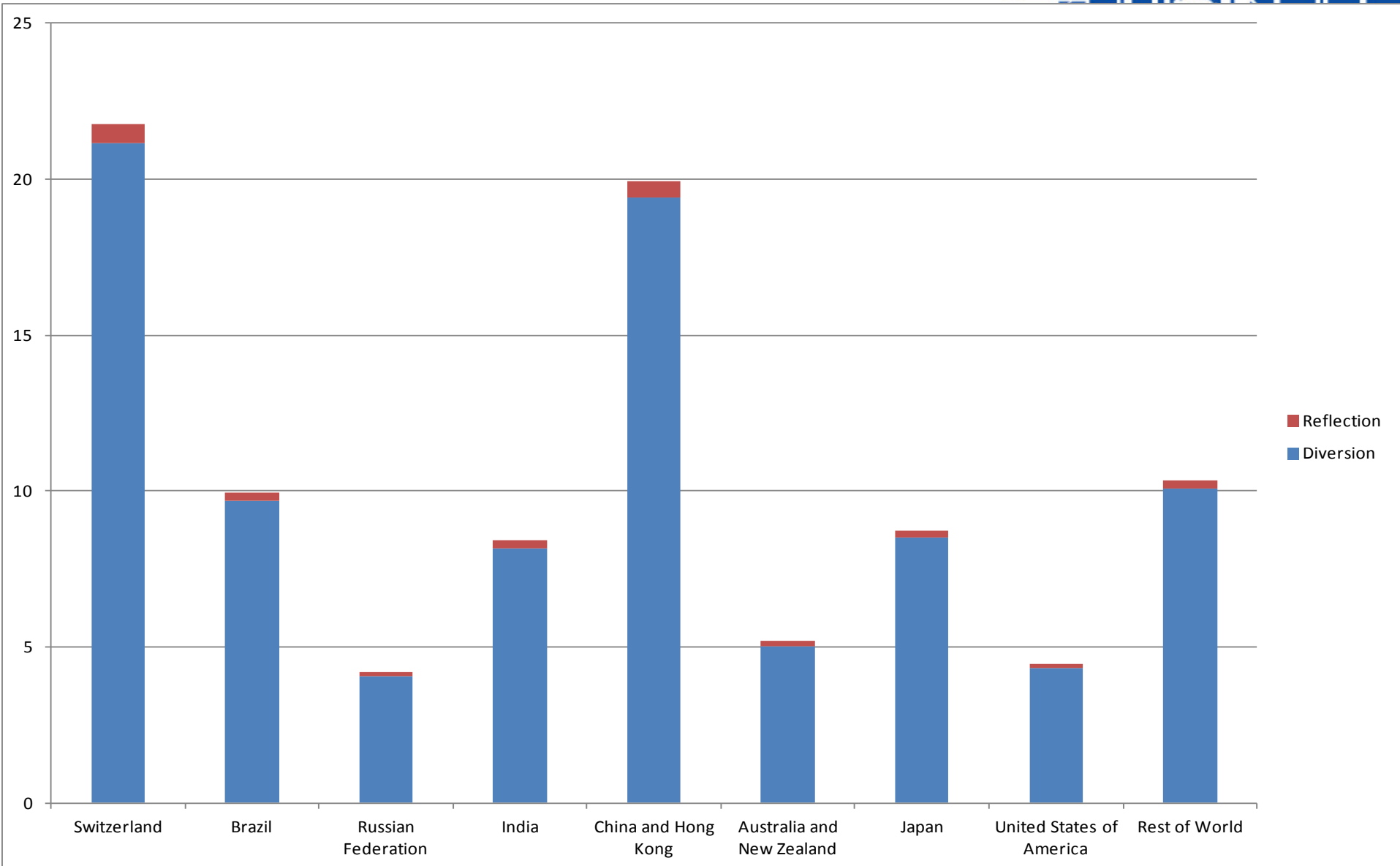
United States of America

Rest of World

Gross trade Value added trade



Who's (re)exporting EU value added?





Hub and spoke trade policy: Who's trading in EU value-added?



- The shares of final absorption, transmission and reflection vary for each bilateral relation
 - Some partners are “specialized” hubs in EU value added.
 - EU domestic value added exports to Switzerland and China have the highest share of EU VA transmission (about 20%)
 - CHN, CH – the most important locations in the global production networks in which the EU is involved
- Do all our FTAs make a “value-added” difference?
 - What about other countries’ FTAs? Do they trade in EU value added?
 - Viner’s value-added trade creation and diversion?
 - Redirection of foreign value-added
 - Final destination of redirected value added

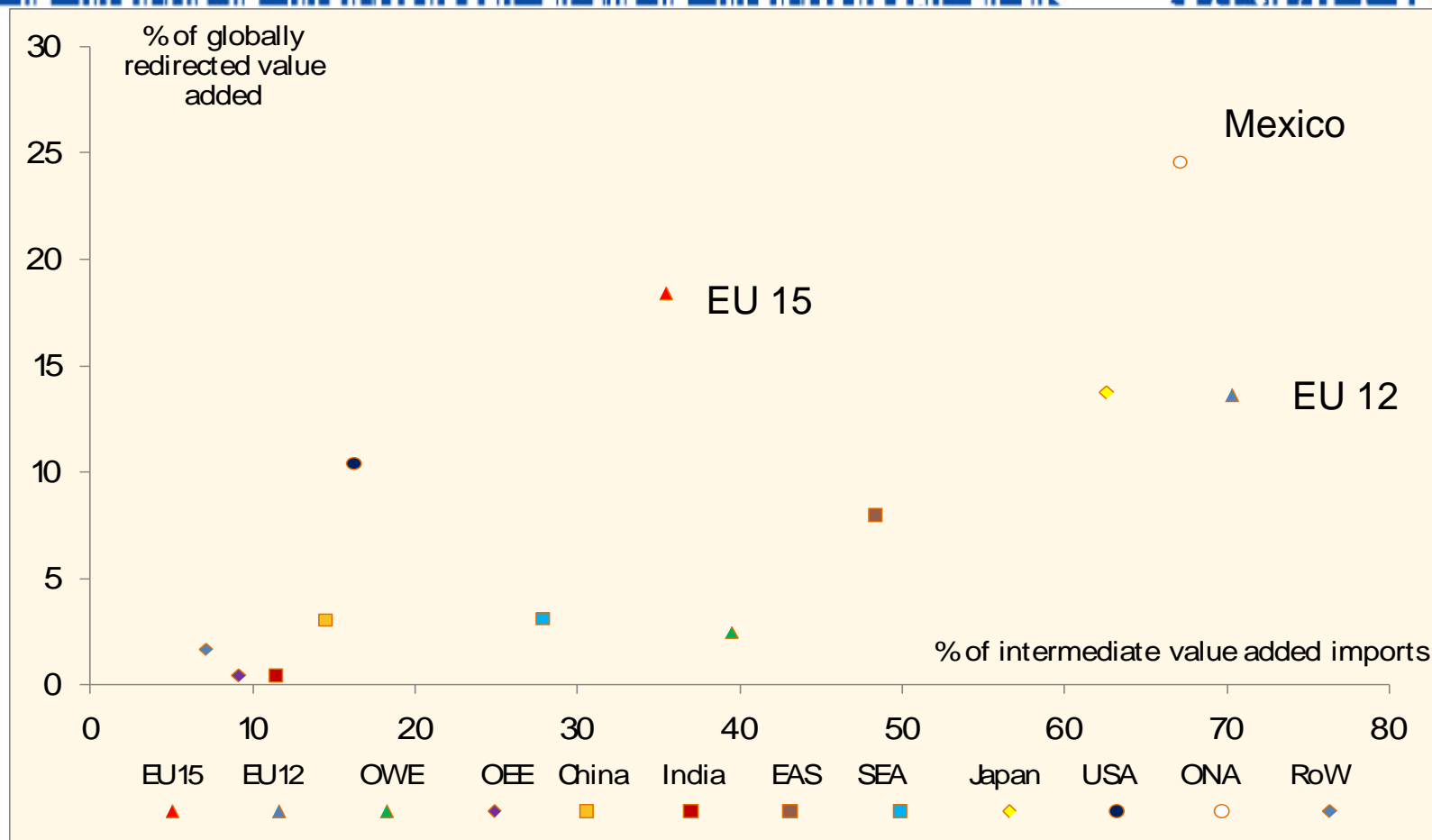


Further insights on trade policy and EU competitiveness



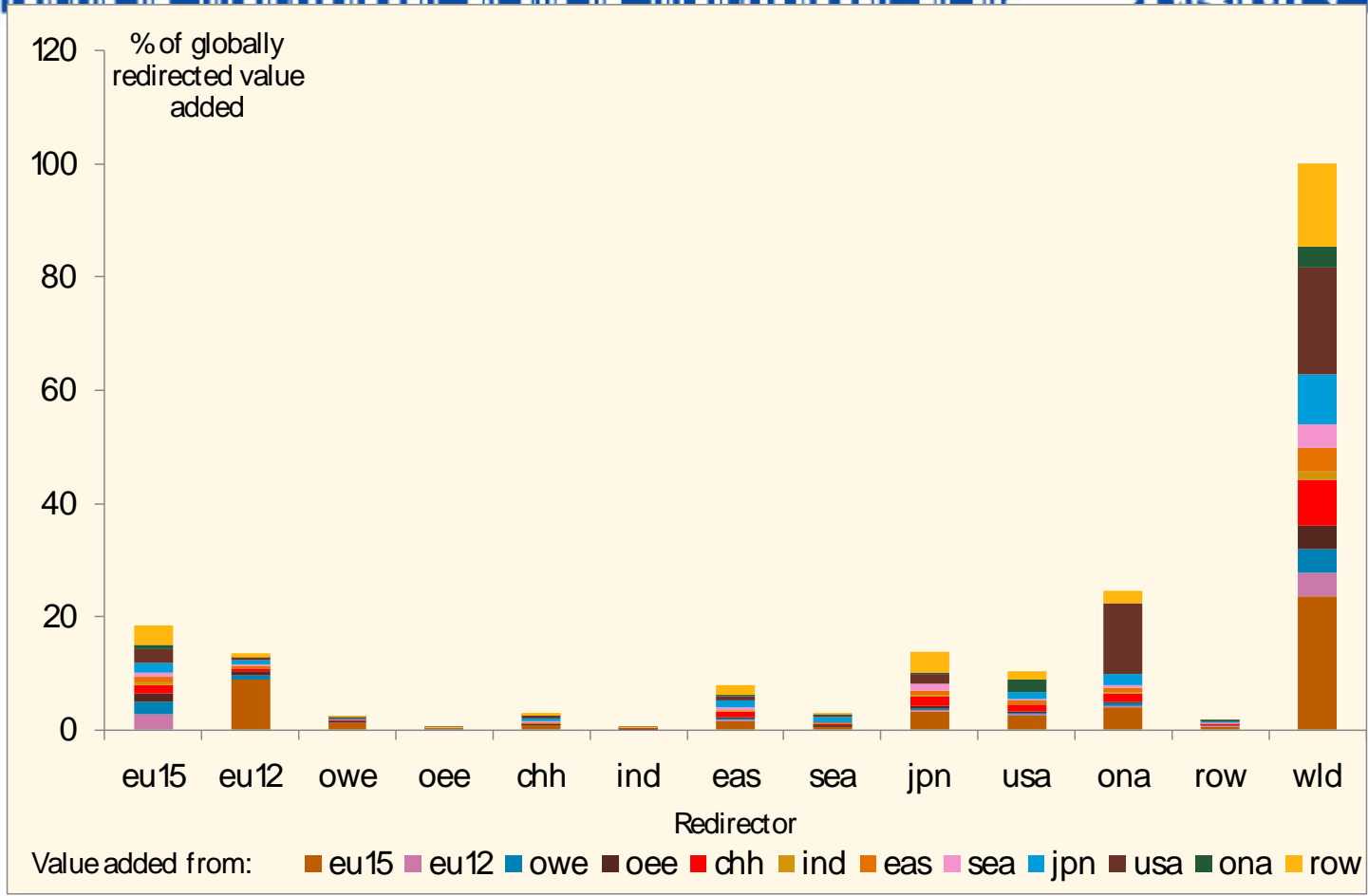
- **In the EU redirected foreign value added is slightly larger than redirected own value added**
 - This suggests that some EU industries/Member States are positioned at the downstream end of production chains rather than upstream. So does China.
 - In contrast the US seems to be at the upstream end of production as is Japan.
- **The degree of vertical specialization, the role played in GVCs, Single Market/EEA importance and EU12-EU15 differences - not all clear cut and deserve further analysis**
 - The **EU15** is a global hub in chemical, rubber and plastic products, machinery and equipment, and in motor vehicles and parts.
 - The **new EU Member States** also form a global hub in motor vehicles and Switzerland is a EU value-added hub in chemicals

Redirection of foreign VA in motor vehicles, 2007



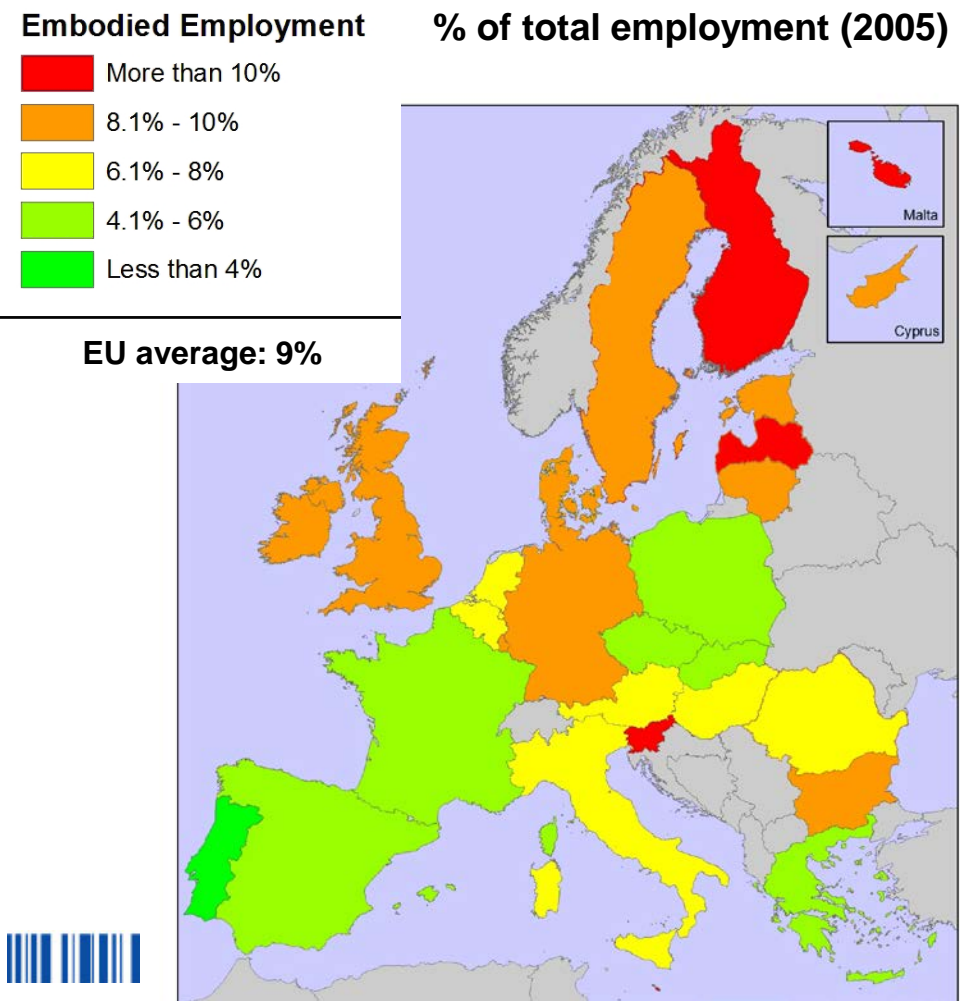
Source: CPB, forthcoming

Origins of redirected VA in motor vehicles, 2007



Source: CPB, forthcoming

Export competitiveness and job creation: a value-added analysis



- Between 19-25 million jobs in Europe are directly dependent on our export competitiveness
- 36 million jobs dependent on overall trade performance (exports, imports, productivity gains, wage premium)
- around 1/3 of these jobs were generated through a “Single Market” effect


Source: European Commission IPTS-Sevilla (J. Rueda-Cantuche et al. forthcoming study)



What's next?

- **Data and analytical limitations**
 - one needs proportionality assumptions in constructing global input-output tables
 - no distinction yet whether the 'hubs' identified are production hubs or trading hubs (re-exporters of 'almost final' output)
- **Policy questions still unclear**
 - Any fine-tuning necessary for EU trade policy?

Some policy question marks....

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- **Bilateral trade gaps:**
 - the magnitude (and political perception) of a bilateral deficit/surplus is likely to change. Identifying the value-added different countries add to global value chains produces new perspectives on specialisation and comparative advantages.

 - **Rules of origin:**
 - To what extent does the complexity of rules of origin in bilateral trade agreements thwart the development of production supply chains? Can we devise better RoO as part of the current reflection on the future of the WTO?

 - **Trade volatility:**
 - Do global supply chains lead to trade collapse during economic shocks? Or do the fixed costs of establishing production linkages and the existence of long-term contracts associated with supply chains act as built-in stabilizers for the global economy?

 - **Protectionism:**
 - Do increasingly complex global supply chains (and the increase in vertical trade) deter protectionism? What lessons could be drawn from the great recession of 2009?

 - **Exchange rates:**
 - There may be new and important implications for the way we assess the impact of bilateral exchange rate movements.
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